

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

JOHN KHO, Individually and on Behalf of All : Civil Action No. 1:18-cv-02242
Others Similarly Situated, :
Plaintiff, : CLASS ACTION
vs. : COMPLAINT FOR VIOLATION OF THE
Defendants. : FEDERAL SECURITIES LAWS

x DEMAND FOR JURY TRIAL

Plaintiff John Kho (“plaintiff”), individually and on behalf of all others similarly situated, by plaintiff’s undersigned attorneys, alleges the following based upon personal knowledge as to plaintiff and plaintiff’s own acts, and upon information and belief as to all other matters based on the investigation conducted by and through plaintiff’s attorneys, which included, among other things, a review of Securities and Exchange Commission (“SEC”) filings by Ubiquiti Networks, Inc. (“Ubiquiti” or the “Company”), as well as conference call transcripts and media and analyst reports about the Company. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

SUMMARY OF THE ACTION

1. This is a securities fraud class action on behalf of all persons who purchased Ubiquiti common stock between August 3, 2017 and February 20, 2018, inclusive (the “Class Period”), against Ubiquiti and certain of its officers and/or directors for violations of the Securities Exchange Act of 1934 (“1934 Act”), including Robert J. Pera (“Pera”), the Company’s Chief Executive Officer (“CEO”), Chairman and founder, and Kevin Radigan (“Radigan”), the Company’s Chief Accounting Officer (“CAO”). Plaintiff alleges that defendants violated the securities laws by disseminating materially false and misleading statements and concealing material adverse facts regarding Ubiquiti’s current financial condition and growth prospects.

INTRODUCTION AND OVERVIEW

2. Defendant Ubiquiti describes itself as a company that develops technology platforms for hi-capacity distributed Internet access, unified information technology, and next-generation consumer electronics for home and personal use. The Company is primarily a hardware company that focuses on network routers, but, with the May 2016 announcement of

Ubiquiti Labs, the Company moved into consumer electronics as well. While Ubiquiti started out serving the wireless internet service provider market with unique wireless networking products, its business quickly became commoditized. As its product lines have advanced, Ubiquiti has found itself competing in the home network/access point space with much larger and well-established companies such as Cisco, Google and Netgear. Ubiquiti's common stock is traded on the NASDAQ under the ticker "UBNT."

3. According to the Company's most recent Form 10-K, Ubiquiti sells its products worldwide through a network of over 100 distributors and on-line retailers and has a very broad installed base, with over 70 million devices sold in over 200 countries and territories around the world. Sales to distributors accounted for 99% of Ubiquiti's revenues in the fiscal year ended June 30, 2017. Ubiquiti's revenues were \$865.3 million, \$666.4 million and \$595.9 million in the fiscal years ended June 30, 2017, 2016 and 2015, respectively.

4. Ubiquiti's stated claim to success is that its "differentiated business model has enabled [it] to break down traditional barriers such as high product and network deployment costs and offer solutions with disruptive price-performance characteristics." Ubiquiti claims that the key to keeping costs disruptively low is eschewing a traditional sales force in favor of the "Ubiquiti Community," explaining that its "business model is driven by a large, growing and highly engaged community of service providers, distributors, value added resellers, systems integrators and corporate IT professionals, which [the Company] refer[s] to as the Ubiquiti Community." According to the Form 10-K, "[t]he Ubiquiti Community is a critical element of [the Company's] business strategy as it enables [Ubiquiti] to drive":

- ***Rapid customer and community driven product development.*** We have an active, loyal community built from our customers that we believe is a sustainable competitive advantage. Our solutions benefit from the active engagement between the Ubiquiti Community and our development engineers throughout the product development cycle, which eliminates long and expensive multistep internal processes and results in rapid introduction and adoption of our products. This approach significantly reduces our development costs and time to market.
- ***Scalable sales and marketing model.*** We do not currently have, nor do we plan to hire, a direct sales force, but instead utilize the Ubiquiti Community to drive market awareness and demand for our products and solutions. This community-propagated viral marketing enables us to reach underserved and underpenetrated markets far more efficiently and cost-effectively than is possible through traditional sales models. Leveraging the information transparency of the Internet allows customers to research, evaluate and validate our solutions with the Ubiquiti Community and via third party web sites. This allows us to operate a scalable sales and marketing model and effectively create awareness of our brand and products. Word of mouth referrals from the Ubiquiti Community generate high quality leads for our distributors at relatively little cost.
- ***Self-sustaining product support.*** The engaged members of the Ubiquiti Community have enabled us to foster a large, cost efficient, highly-scalable and, we believe, self-sustaining mechanism for rapid product support and dissemination of information.

5. The Class Period begins on August 3, 2017, when Ubiquiti announced in a press release and earnings call its “[r]ecord” preliminary 4Q17 and FY17 financial results and aggressive FY18 financial guidance.¹ Defendant Pera also defended the Company’s business model during the earnings call, calling Ubiquiti’s operations misunderstood but saying that the criticism would be “short lived.”

¹ The Company operates on a fiscal year ending June 30. As used herein “FY” means Ubiquiti’s fiscal year and “Q” means Ubiquiti’s fiscal quarter. Thus, FY17 means Ubiquiti’s fiscal year 2017, which runs from July 1, 2016 to June 30, 2017. Likewise, 4Q17 means Ubiquiti’s fourth fiscal quarter of 2017, which ran from April 1, 2017 to June 30, 2017.

6. Thereafter and throughout the Class Period, defendants made materially false and misleading statements concerning the Company's true business and financial condition, including, but not limited to: the size and level of engagement of the Ubiquiti Community; the identity of its distributors and the nature of its relationships with them; the Company's international trade practices; Ubiquiti's accounting practices; and the Company's forecasted financial growth prospects and the extent to which they were reliant upon inflated accounts receivable amounts, cash and margin metrics and inventory that had become obsolete. These misrepresentations and omissions were made and repeated in the Company's Form 10-K filed on August 25, 2017, its Investor Day conference call on September 26, 2017, and in press releases, Forms 10-Q, and during earnings calls on November 9, 2017 and February 8, 2018, when defendants reported the Company's 1Q18 and 2Q18 financial results, respectively. The Form 10-K and Forms 10-Q also included false certifications pursuant to the Sarbanes Oxley Act of 2002 ("SOX") signed by defendants Pera and Radigan.

7. The Class Period misrepresentations made by defendants concerning the Company's current financial and business conditions, including its forecasted financial and business conditions alleged herein, were each materially false and misleading when made and caused the Company's stock to trade at artificially inflated prices, reaching over \$82 per share on January 29, 2018, because defendants knew, or recklessly disregarded, the following true facts:

(a) Ubiquiti had been inaccurately reporting its operating metrics and using improper accounting practices, including overstating the number of actual registered users participating in the Ubiquiti Community as well as the levels and importance of their

engagement with the Ubiquiti Community; overstating accounts receivable; and overstating the profits derived from its U.S. operations and thus the Company’s U.S. operations profit margins;

(b) much of Ubiquiti’s distributor network was made up of overseas entities and individuals who were doing business in sanctioned countries and in jurisdictions identified by the Financial Action Task Force as “noncooperative jurisdictions” with regard to anti-money laundering regulations;

(c) Ubiquiti’s inventory of FrontRow camera products was obsolete and needed to be written off because there was no market demand for the product; and

(d) as a result of the foregoing, there was no reasonable basis for Ubiquiti’s FY18 financial guidance.

8. On or about September 6, 2017, stock blogger Unemon1 published a report on *SeekingAlpha.com* noting that, in 2016, Ubiquiti had “stopped disclosing the name[s]” of customers accounting for more than 10% of its business “in its 10-K filings,” overtly suggesting that, when the Company had last disclosed the names of its customers responsible for 10% or more of its business in the 4Q15, Ubiquiti had overstated accounts receivable from at least one major customer by “at least 236.”

9. On September 18, 2017, Andrew Left (“Left”), managing editor of *Citron Research* (“*Citron*”), published a report, entitled “*Citron Exposes Ubiquiti Networks*” (the “*Citron Report*”), wherein Left detailed a series of alarming “red flags” suggesting that the Company was a “fraud.” Specifically, the *Citron Report* accused Ubiquiti of overstating the number of actual registered users in the Ubiquiti Community; concealing that much of Ubiquiti’s distributor network was made up of overseas entities and individuals through which Ubiquiti did

business in sanctioned countries and jurisdictions notorious for money laundering; and overstating the profits derived from the Company’s U.S. operations. The *Citron* Report added that the Company had unusually high executive turnover, including having no Chief Financial Officer (“CFO”) (other than a purported Lithuanian CFO whose LinkedIn “profile does not even have her real name”), and revealed that “Yu-Cheng (Believe) Lin,” who actually “ran Ubiquiti’s Taiwan operations and had signing power for the company in Taiwan,” had been “charged with insider trading of Ubiquiti stock.” In fact, the SEC had a default judgment entered against Lin on or about June 19, 2017, and he was “now a fugitive as Taiwan does not have an extradition treaty with the US.” The *Citron* Report also discussed the allegations made by Unemon1 concerning Ubiquiti overstating accounts receivable.

10. On the same day, September 18, 2017, defendants responded to the *Citron* Report in two ways. The official response was made by the Company, which filed, after trading hours, a Form 8-K in which it increased the Company’s financial guidance for the quarter ending 12 days later, on September 30, 2017 (*i.e.*, 1Q18), and announced \$100 million in newly authorized share repurchases. The Form 8-K also announced that Pera would host an Investor Update on September 26, 2017, during which he would discuss the Company’s strategy and outlook and answer investor questions. Though the Form 8-K did not mention the *Citron* Report, investors considered Ubiquiti’s September 18, 2017 Form 8-K to be a direct refutation of the allegations in the report.

11. Defendant Pera also took to Twitter to more directly deny the accusations in the *Citron* Report, calling the writers of the report “clowns” in one September 18, 2018 tweet,² and engaging in the following exchange on Twitter that same day:³

[@RobertPera⁴:] I am consumed with product development and don’t have time to entertain accusations of stock manipulators. But, will take questions here

[@ScottWapnerCNBC⁵:] 1. Left says your numbers “are a farce” What’s your response? 2. Why are there only four people on the board? 3. Why doesn’t co[mpany] have a CFO?

[@RobertPera:] 1. Ask KPMG (our auditors).⁶ Also, we have bought back \$100mm’s in stock . . . where did that cash come from? Not the tooth fairy.⁷

12. Defendants’ September 18, 2017 statements and their subsequent statements at the Company’s first ever Investor Day on September 26, 2017, and in press releases and earnings calls for 1Q18 and 2Q18, as issued on or around November 9, 2017 and February 8, 2018, respectively, had their intended effect, causing investors and analysts to disregard the accusations

² Tweets originally available at <https://twitter.com/RobertPera/status/909784361402343425>. The full tweet, posted in response to a tweet from *Citron*’s Twitter account (and to unknown user @AlexTeha) announcing the *Citron* Report, reads: “I just put my head down and let the products and numbers speak for themselves. My apologies to those affected by these clowns.”

³ Tweets originally available at <https://twitter.com/RobertPera/status/909852414819405824>.

⁴ @RobertPera is the Twitter-verified account of defendant Pera.

⁵ This is the Twitter-verified account of Scott Wapner, host of CNBC’s “Fast Money Halftime Report.” His CNBC bio is available at <https://www.cnbc.com/scott-wapner/>.

⁶ KPMG became Ubiquiti’s auditor on or around December 5, 2016, when, according to a Form 8-K Ubiquiti filed with the SEC, Ubiquiti dismissed its previous auditor, PricewaterhouseCoopers LLP.

⁷ Pera did not answer Mr. Wapner’s other two questions.

made in the *Citron* Report and Ubiquiti's stock price to increase to more than \$82 per share during the Class Period.

13. Then, on February 20, 2018, the Company filed a Form 8-K disclosing that on February 13, 2018, the SEC had issued subpoenas to Ubiquiti and certain of the Company's officers requesting documents and information regarding a range of topics, including metrics relating to the Ubiquiti Community and the Company's accounting practices, financial information, auditors, international trade practices, and relationships with distributors and various other third parties.

14. Following the disclosure that the SEC had served subpoenas on the Company, the price of Ubiquiti common stock plummeted, falling \$18.76 per share, or more than 25%, from its close of \$74.04 per share on the evening of Friday, February 16, 2018, to close at \$55.28 per share on Tuesday, February 20, 2018,⁸ on unusually high trading volume of more than 5.4 million shares traded.

JURISDICTION AND VENUE

15. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of the 1934 Act, 15 U.S.C. §§78j(b) and 78t(a), and Rule 10b-5, 17 C.F.R. §240.10b-5, promulgated thereunder by the SEC.

16. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §1331 and §27 of the 1934 Act.

⁸ Monday, February 19, 2018, was a national holiday, President's Day, during which U.S. equity markets were closed.

17. Venue is proper in this District pursuant to §27 of the 1934 Act and 28 U.S.C. §1391(b). Ubiquiti claims to maintain its headquarters in New York and many of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in substantial part in this District.

18. In connection with the acts alleged in this complaint, defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications and the facilities of the national securities markets.

THE PARTIES

19. Plaintiff John Kho purchased Ubiquiti common stock during the Class Period as set forth in the attached certification and was damaged thereby.

20. Defendant Ubiquiti is a Delaware corporation with its principal place of business now purportedly located at 685 Third Avenue, 27th Floor, New York, New York 10017. Ubiquiti's common stock is traded under the ticker "UBNT" on the NASDAQ, an efficient market.

21. Defendant Pera founded Ubiquiti as Pera Networks, Inc. in 2003. Defendant Pera is, and at all relevant times was, CEO and Chairman of the Board of Ubiquiti.

22. Defendant Radigan is, and at all relevant times was, CAO of Ubiquiti.

23. Defendants Pera and Radigan are collectively referred to herein as the "Individual Defendants." The Individual Defendants made, or caused to be made, false statements that caused the price of Ubiquiti common stock to be artificially inflated during the Class Period.

CONTROL PERSONS

24. As officers and controlling persons of a publicly held company whose common stock was and is traded on the NASDAQ and is governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to promptly disseminate accurate and truthful information with respect to the Company's financial condition, performance, growth, operations, financial statements, business, markets, management, earnings and present and future business prospects, and to correct any previously issued statements that had become materially misleading or untrue, so that the market price of the Company's common stock would be based upon truthful and accurate information. The Individual Defendants' misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

25. The Individual Defendants participated in the drafting, preparation and/or approval of the various public, shareholder and investor reports and other communications complained of herein and were aware of, or recklessly disregarded, the misstatements contained therein and omissions therefrom, and were aware of their materially false and misleading nature. Because of their Board membership and/or executive and managerial positions with Ubiquiti, each of the Individual Defendants had access to the adverse undisclosed information about the Company's financial condition and performance as particularized herein and knew (or recklessly disregarded) that these adverse facts rendered the positive representations made by or about Ubiquiti and its business or adopted by the Company materially false and misleading.

26. The Individual Defendants, because of their positions of control and authority as officers and/or directors of the Company, were able to and did control the content of the various SEC filings, press releases and other public statements pertaining to the Company issued during

the Class Period. Each Individual Defendant was provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly, each of the Individual Defendants is responsible for the accuracy of the public reports and releases detailed herein and is therefore primarily liable for the representations contained therein.

27. The Company and the Individual Defendants are liable for: (i) making false statements; or (ii) failing to disclose adverse facts known to them about Ubiquiti. Defendants' fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of Ubiquiti common stock was a success, as it: (i) deceived the investing public regarding Ubiquiti's prospects and business; (ii) artificially inflated the price of Ubiquiti common stock; and (iii) caused plaintiff and other members of the Class (as defined below) to purchase Ubiquiti common stock at artificially inflated prices.

SUBSTANTIVE ALLEGATIONS

28. On August 3, 2017, Ubiquiti issued a press release announcing its "record" preliminary 4Q17 and FY17 financial results and FY18 financial guidance. For 4Q17, Ubiquiti reported net income of \$60.7 million, or \$0.74 diluted earnings per share ("EPS"), on revenues of \$228.6 million. For FY17, Ubiquiti reported net income of \$257.5 million, or \$3.16 diluted EPS, on revenues of \$865 million. Emphasizing how the Company's purportedly "record" results justified the outsized financial guidance being provided, the release also stated in pertinent part as follows:

Fourth Quarter Financial Highlights

- **Revenues increased 23% year-over-year and 4.7% sequentially,** primarily driven by *continued strong demand for new product offerings across the Company's product lines.*
- **Enterprise Technology revenues increased 49% year-over-year,** primarily driven by *continued adoption of the Company's UniFi product family of access points, switches, gateways and IP cameras.*
- **Service Provider Technology revenues increased 5% year-over-year and 10% sequentially,** primarily driven by the Company's airMAX AC and airMAX AC Gen 2 product lines.
- **GAAP gross margin of 45.1%, reflecting the success of our newer product offerings.** We generally introduce new products at an aggressive price to capture market share and experience margin expansion over time as we reduce costs while maintaining our selling price. Recent revenue growth has been primarily driven by new product offerings and, accordingly, gross margins have decreased slightly on a sequential basis and declined 3.2% on a year-over-year basis.

* * *

Outlook

Based on recent business trends, the Company believes the demand environment in its end markets supports the following forecast for the Company's first quarter fiscal 2018 ending September 30, 2017:

- Revenues of \$230-\$250 million;
- GAAP diluted EPS of \$0.80-\$0.90;
- Gross margins are expected to remain consistent on a sequential basis; and
- An effective tax rate of 13%.

For the full year fiscal ending June 30, 2018, the Company expects to generate revenues of \$1.0 - \$1.15 billion and diluted earnings per share of \$3.70 - \$4.30 driven by growth in the Enterprise Technology and Service Provider Technology segments.

29. On August 3, 2017, Ubiquiti also held a conference call for analysts, media representatives and investors to discuss its 4Q17 results. The call was hosted by Pera, who repeated the financial results from the press release issued the same day. Pera issued no prepared remarks and during the call took approximately eight analyst questions. In response to those questions, Pera made a number of statements about the strength of Ubiquiti's financial results and forecasts, including its cash position going forward, and about the Company's business model, which he claimed was misunderstood:

Ubiquiti, as a company, has been misunderstood by a lot of people. I feel we have a group of core competencies that gives us a great competitive advantage in the market. Specifically, our ability to target markets, our vision and being in markets a lot of times before others; *of course, our business model, which revolves around touchless evangelism and pull*; I would say how we allocate our resources and get great investment on our resource allocation; and finally, which we don't get enough credit for, is our design capabilities. . . . So together, those core competencies have given us a really unique, I think, competitive advantage in the market and has allowed us to weather a lot of storms and a lot of adversity. *And it has been frustrating to see a lot of critics poke at our core competencies as something that's flawed. That's something that's short lived.*

* * *

And it is true, we're lending money onshore to buy back, but if we believe in the long-term story of the company which we do, *I don't think cash is going to be a problem over long term, as the company is going to generate a lot of cash.*

30. Following Ubiquiti's August 3, 2017 press release and conference call, the price of Ubiquiti common stock rose \$8.93 per share, from a close of \$53.93 on August 2, 2017, to a close of \$62.86 per share on August 3, 2017.

31. On August 8, 2017, Morgan Stanley issued its final analyst report on Ubiquiti.⁹ Morgan Stanley's report conceded that although the analyst had been skeptical of Ubiquiti's performance in the past, rating Ubiquiti underweight ("UW") since 2015, Morgan Stanley was now changing its rating for the Company, including raising its price target by \$25, based on the strong financial results and forecasts defendants issued on August 3, 2017:

We are changing our final rating and price target to EW (from UW) and **\$63 from \$38 to reflect the new FY18 plan Ubiquiti laid out on their earnings call August 3rd** (e.g. \$1.00 - \$1.15bn FY18 revenue target, \$3.70 - \$4.30 EPS target). As a result of new targets implying meaningful upside to previous expectations (e.g. implies 15-32% revenue growth and 21 - 41% EPS growth in FY18, 18% and 25% higher at the midpoint to our previous revenue and EPS estimates), we think the company will get credit for at least the low end of the earnings range in the near term. The company has stated that they can achieve their FY18 targets on existing products alone (e.g. without significant contributions from new products like uFiber), with little expansion in opex and improving gross margins (implied in order to achieve EPS targets). . . . **Our previous UW rating was based on a lack of visibility into growth** (and volatility of drivers on a Q/Q basis) and questions over success of new product pipeline. **However, given level of visibility company is giving and statement that new product success is not necessary to achieve targets, we are revising our rating and PT.**

32. On August 10, 2017, Ubiquiti filed with the SEC an investor presentation containing more than 40 slides. The presentation summarized Ubiquiti's business plan, reaffirmed its 2018 financial forecasts, and included the following statements: the Ubiquiti Community was the key to Ubiquiti's "[d]isruptive [b]usiness [m]odel" (slide 13), which gave the Company a "[c]ore [c]ompetitive [a]dvantage" (slide 15); in calendar 2016, Ubiquiti saw 11 million visits, 3 million registered user visits, and 173,000 newly registered users on the Ubiquiti Community (*id.*); the Ubiquiti Community was made up of "[h]ighly engaged and loyal

⁹ Morgan Stanley explained in the report that, "[e]ffective immediately, we are discontinuing coverage of Ubiquiti Networks (UBNT) due to a reallocation of resources."

evangelists" and was "[s]calable and self-sustaining," which had allowed and would continue to allow Ubiquiti to grow in perpetuity while "avoid[ing] the cost of a direct] sales force" (slide 16); and further, Ubiquiti's "[d]istributors, resellers and connection with Ubiquiti Community drive sales," again allowing Ubiquiti to "Avoid[the] Cost of a [Direct] Sales Force" (slide 20). As a result, according to slide 20, Ubiquiti's "Operating Expenses [are only] 12% of sales vs. ~20-90% for peers."

33. On August 25, 2017, Ubiquiti filed its annual report on Form 10-K with the SEC for 4Q17 and FY17. The Form 10-K, which included the same results previously reported in the Company's August 3, 2017 press release, was signed by and contained certifications pursuant to SOX of defendants Pera and Radigan:

1. I have reviewed this annual report on Form 10-K of Ubiquiti Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us

by others within those entities, particularly during the period in which this report is being prepared;

- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
34. With the market price of Ubiquiti common stock artificially inflated, on August 28, 2017, Pera sold one million shares of Ubiquiti common stock on the open market at \$61.25 per share, receiving \$61.25 million in gross proceeds.

35. Then, on or about September 6, 2017, stock blogger Unemon1 published a report on *SeekingAlpha.com* noting that, in 2016, Ubiquiti had “stopped disclosing the name[s]” of customers accounting for more than 10% of its business “in its 10-K filings” and emphasizing that, when the Company had last disclosed the names of customers responsible for 10% or more of its business in 4Q15, Ubiquiti had overstated accounts receivable from at least one major customer by “at least 236%.”

36. On September 18, 2017, Left, managing editor of *Citron*, published the *Citron* Report, which was entitled “Citron Exposes Ubiquiti Networks,” wherein Left detailed a series of alarming “red flags” suggesting that the Company was a “fraud.” Specifically, the *Citron* Report accused Ubiquiti of overstating the number of its actual registered users in the Ubiquiti Community; concealing that much of Ubiquiti’s distributor network was made up of overseas entities and individuals through which Ubiquiti did business in sanctioned countries and jurisdictions notorious for money laundering; and overstating the profits derived from the Company’s U.S. operations. The *Citron* Report added that the Company had unusually high executive turnover, including having no CFO (other than a purported Lithuanian CFO whose LinkedIn “profile does not even have her real name”), and revealed that “Yu-Cheng (Believe) Lin,” who actually “ran Ubiquiti’s Taiwan operations and had signing power for the company in Taiwan,” had been “charged with insider trading of Ubiquiti stock.” In fact, the SEC had a default judgment entered against Lin on or about June 19, 2017, and he was “now a fugitive as Taiwan does not have an extradition treaty with the US.” The *Citron* Report also discussed the allegations made by Unemon1 concerning Ubiquiti overstating its accounts receivable.

37. The disclosures in the *Citron* Report caused the price of Ubiquiti common stock to plummet, falling \$4.33 per share, or nearly 8%, from a close of \$54.95 per share on Friday, September 15, 2017, to a close of \$50.62 per share on Monday, September 18, 2017, on unusually high trading volume of more than 11.7 million shares trading.

38. On the same day, September 18, 2017, after trading hours, Ubiquiti filed a Current Report on Form 8-K announcing an improved range for the Company's financial revenue guidance for the quarter ending 12 days later, on September 30, 2018 (*i.e.*, 1Q18), increasing guidance from \$230-\$250 million to \$240-\$250 million. In addition, the Form 8-K announced the Board had approved a \$100 million stock repurchase program.¹⁰ The Form 8-K also reaffirmed the Company's FY18 guidance and stated that Pera would host an Investor Update on September 26, 2017 to discuss the Company's strategy and financial guidance and outlook. The update was in fact given as part of the Company's first ever Investor's Day.

39. In addition to issuing the Form 8-K on September 18, 2017, Pera himself took to Twitter to deny *Citron*'s accusations. In a tweet sent at 9:46 am Eastern Standard Time, *Citron* announced: "Citron Reports on \$UBNT. Believe total FRAUD. All claims supported by fact. citronresearch.com. Not seen anything like this in YEARS." When another Twitter user brought the *Citron* tweet to Pera's attention by tweeting "@RobertPera This is ridiculous," Pera responded: "I just put my head down and let the products and numbers speak for themselves.

¹⁰ As noted in the Form 8-K, the \$100 million stock repurchase program was on top of the \$50 million program approved on March 3, 2017 and another \$50 million program approved on September 5, 2017.

My apologies to those affected by these clowns.” See <https://twitter.com/RobertPera/status/909784361402343425>.

40. Pera also engaged in a longer exchange on September 18, 2017, when he offered to take questions from Twitter users. When Scott Wapner, host of CNBC’s “Fast Money Halftime Report,” responded to Pera’s invitation to ask a number of questions, Pera responded to the question about Left’s *Citron* Report (but not to Wapner’s other questions) as follows:

[@RobertPera¹¹:] I am consumed with product development and don’t have time to entertain accusations of stock manipulators. But, will take questions here

[@ScottWapnerCNBC¹²:] 1. Left says your numbers “are a farce” What’s your response? 2. Why are there only four people on the board? 3. Why doesn’t co[mpany] have a CFO?

[@RobertPera:] 1. Ask KPMG (our auditors).¹³ Also, we have bought back \$100mm’s in stock . . . where did that cash come from? Not the tooth fairy¹⁴

41. Analysts responding to the news on September 18, 2017 dismissed the *Citron* Report as unfounded. As reported by *SeekingAlpha*, JMP analyst Erik Suppiger stated during a September 18, 2017 call with *Bloomberg’s First Word* radio program that he ““does not see fraud”” as alleged by *Citron*. *SeekingAlpha* also reported on September 19, 2017 that Raymond James analyst Tavis McCourt had “dismisse[d the] fraud accusations against Ubiquiti.”

¹¹ @RobertPera is the Twitter-verified account of defendant Pera.

¹² @ScottWapnerCNBC is the Twitter-verified account of Scott Wapner, host of CNBC’s “Fast Money Halftime Report.” His CNBC bio is available at <https://www.cnbc.com/scott-wapner/>.

¹³ KPMG became Ubiquiti’s auditor on or around December 5, 2016, when, according to a Form 8-K Ubiquiti filed with the SEC, Ubiquiti dismissed its previous auditor, PricewaterhouseCoopers LLP.

¹⁴ Tweets originally available at <https://twitter.com/RobertPera/status/909852414819405824>.

42. On September 19, 2017, JMP issued a short “Estimate Changes” report on Ubiquiti, entitled “UBNT Guides Higher as Short Seller Report Fuels Stock Volatility,” noting that defendants had raised Ubiquiti’s guidance in the September 18, 2017 Form 8-K, “presumably in response to volatility caused by a short seller report alleging that the company has been acting fraudulently.”

43. On September 26, 2017, Ubiquiti held an Investor Day call for analysts, media representatives and investors to discuss Ubiquiti’s strategy and financial outlook. On the call, hosted by Pera, while not mentioning the *Citron* Report by name, Pera provided commentary about the Company’s business metrics and financial prospects and reassured investors about the integrity of the Company’s business model, metrics and financial prospects. In addition, the Company stated that Ubiquiti’s business model and the Ubiquiti Community were genuine sources of stability and strength, that the cost-reducing decentralization only applied to R&D and not to the legal or process side of the business, that all of the Company’s business units and product lines were profitable, and that the stock repurchases were designed to buy the stock when it was undervalued and would not only improve the stock price in the short term but also increase Ubiquiti’s long term EPS:

[Pera:] *Ubiquiti is a big departure from [traditional] operating profiles. . . . [W]e have a very efficient OpEx and we make a lot of money.* And I know some people might be confused about this because you look at the level of OpEx and the level of margin combined with the cost of goods sold being relatively high. And a lot of people applying traditional thought to this model will say something’s wrong, maybe this is not sustainable.

* * *

I like how we rely on customers to do our own marketing. And I believe at the end of the day, *all I care about is EPS and EPS growth. . . . And when you look*

at Ubiquiti, the way we scale is we just keep adding these aggressive ships [i.e. business units/product lines], and they're all profitable.

* * *

[T]he best thing to do is to start independent teams in different locations and keep them small. And if you do it right, you'll never – and you keep the businesses relatively simple, you could avoid this dilemma. Now I want to state clearly, when I talk about lack of process, it's on the R&D side. ***Finance, legal, operations, production, those I learned have to be run like the military. Process-oriented, clocks run on time, great controls, great system, checks and balances. But R&D side is different.***

* * *

[T]his past week whenever I got frustrated with people knocking down the multiple, I just stared at this and I said, hey, maybe they're working for us. Maybe they're working for long-term shareholders. You can buy back stock at discount. So I know some of you guys were probably affected and it's been a painful week, but I think what you've seen is we've had a big return on investment or if you invested \$1 with us at our lowest point and I don't see why that will stop. And thanks to these guys, we'll be able to increase the long-term EPS even more with the stock that we're buying back.

* * *

[H]igh amounts of inventory are very dangerous because you could be on the hook for them. [But] If you look at [Ubiquiti's products, such as] UniFi, if you look at airMAX, airFiber or EdgeRouter, video cameras some of these products, their life cycles are incredible.

* * *

[Analyst:] How do you look at your user community? Do you feel like the health is robust? Do you feel like it's growing the way you'd like? And how has it evolved in terms of the way you engage with the community?

. . . [Pera:] What you're looking is for the quality of the activity . . . our community activity over the past 1 or 2 years is definitely increasing. But more than the percentage increase is the qualitative improvement. I think, our community now is far less about issues as it was a few years ago and more about excitement, new products, new features and much more valuable content.

44. During the call, Pera was also asked specifically about the September 18, 2017 *Citron* Report. Pera denied there was any truth to the report:

[Analyst:] [W]ould you like to address the recent short reporting as generally or specifically as you like? . . .

[Pera:] Well, first, it's kind of hard to tell someone the sky is really blue. I could – what am I going to do? Tell him, look up, the sky is blue. And then he – and then people are shouting, no, the sky is red. How do you argue with that?

45. Defendant Pera also discussed the August 2017 launch of the Company's new FrontRow camera, the strength of the Company's inventory position, and the visibility Ubiquiti's inventory gave defendants into the Company's financial results, especially after opening a warehouse in the United States (Utah) after previously relying on warehouses in China:

So I think one of the reasons we're executing much better is because we erred on this side of caution with inventory, and we have a sizable Utah warehouse. . . . I know a big knock on us is visibility, and ***I believe our business is very stable, very visible***. We're not making video games and movies where we live hit by hit like consumer electronic companies. We have lifetime customers. . . . I'm not worried about the inventory. The levels might be high, but you're dealing with long life-cycle products.

46. On September 27, 2017, JMP issued a report evaluating Ubiquiti in light of the Company's first Investor Day. JMP concluded that management had effectively responded¹⁵ to investor concerns related to fraud and low margins and maintained a Market Perform rating for the Company. JMP dismissed the *Citron* Report, stating that "while we acknowledge that Ubiquiti has some unconventional business practices, we do not believe various issues noted last week reflect fraudulent activity as some investors suggest." JMP also explained that "in contrast

¹⁵ JMP's report noted that Pera "fielded a wide array of investor questions – a distinct departure from Mr. Pera's past practice of having relatively limited investor engagement."

to investor concerns over recent declines in gross margins, management indicated that there are multiple opportunities to expand gross margins over the next 12-24 months.”

47. The statements referenced above in ¶¶28-29, 32-33, 38-40 and 43-45 were materially false and misleading when made, as they failed to disclose the following adverse facts that were known by defendants or recklessly disregarded by them:

(a) Ubiquiti had been inaccurately reporting its operating metrics and using improper accounting practices, as reported in the *Citron Report* and by the Unemon1 blog, including by overstating the number of actual registered users participating in the Ubiquiti Community as well as the levels and importance of their engagement with the Ubiquiti Community, overstating accounts receivable, and overstating the profits derived from its U.S. operations and thus the Company’s U.S. operations profit margins;

(b) much of Ubiquiti’s distributor network was made up of overseas entities and individuals who were doing business in sanctioned countries and in jurisdictions identified by the Financial Action Task Force as “noncooperative jurisdictions” with regard to anti-money laundering regulations;

(c) Ubiquiti’s inventory of FrontRow camera products was obsolete and needed to be written off because there was no market demand for the product; and

(d) as a result of the foregoing, there was no reasonable basis for Ubiquiti’s FY18 financial guidance.

48. On November 9, 2017, Ubiquiti issued a press release announcing its 1Q18 financial results and 2Q18 revenue guidance. For 1Q18, Ubiquiti reported net income of \$74.9

million, or \$0.92 diluted EPS, on revenues of \$245.9 million. The release also stated in pertinent part as follows:

First Quarter Financial Highlights

- *Revenues increased 20.1% year-over-year and 7.6% sequentially. Year-over-year growth was primarily driven by the UniFi-AC, UniFi-Switch, airMAX-AC, airFiber and AmpliFi platforms.*
- *Enterprise Technology revenues increased over 49.8% year-over-year* and 11% sequentially. Year-over-year growth was driven by the evolution toward AC technology products, growth in switching and higher average selling prices.
- *GAAP gross margin was 45.4%, consistent with the prior quarter* but down versus the prior year primarily due to product mix.

49. The November 9, 2017 press release again touted the Company's release in mid-August of its new "FrontRow" camera consumer product and issued guidance for 2Q18 as follows:

Business Outlook

Based on recent business trends, Ubiquiti currently believes the demand environment in its end markets supports the following forecast for the Company's second fiscal quarter ending December 31, 2017:

- Revenues of between \$240 million and \$250 million;
- GAAP diluted EPS of \$0.85 – \$0.92;
- Gross margins are expected to remain consistent on a sequential basis; and
- An effective tax rate of 13.5.

50. Ubiquiti's November 9, 2017 announcement of generally positive financial results for 1Q18 was offset by bad news reported by the Company in a Form 8-K filed on the same day

disclosing that Ubiquiti had significantly overstated the number of registered users in the Ubiquiti Community, which Pera had trumpeted as recently as September 26, 2017:

As a result of a reporting error, the previously furnished Prior Investor Presentations and the investor presentation used by Company management dated as of May 2017 referenced 4 million registered users in the Ubiquiti Community, and the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2017 reported that the Ubiquiti Community included over 4 million entrepreneurial operators and systems integrators. In actuality, as of December 31, 2016, the Ubiquiti Community included approximately 609,000 registered users, while there were approximately 4 million registered user sessions at <https://community.ubnt.com> during the calendar year ended December 31, 2016. The information on <https://community.ubnt.com> is not part of this Current Report on Form 8-K.

51. As they had on September 18, 2017, when defendants issued good news (the stock repurchases) to accompany bad news (the issuance of the *Citron Report*), defendants accompanied the November 9, 2017 disclosure of the overstated number of Ubiquiti Community registered users with an announcement that the Board had approved yet another \$50 million in share repurchases.

52. Also on November 9, 2017, Ubiquiti held a conference call for analysts, media representatives and investors to discuss its 1Q18 results. The call was hosted by Pera. During the call, Pera repeated the financial results included in the press release issued the same day. Pera issued no prepared remarks and took roughly 10 analyst questions. In response to those questions, Pera made a number of statements about the strength of Ubiquiti's financial results and about the Company's business metrics and financial prospects, including:

[Pera:] I'd like to say ***this quarter is probably the best quarter in our history***. . . . As for quarter-to-quarter variation, I have always said and I will continue to say, drawing conclusions from quarter-to-quarter variations is not a good reflection of our long-term optics and opportunity. And because of that reason, we're going to start removing quarterly guidance for our next fiscal year. ***I think this quarter***

was the best in our history, and we have a lot of work to do, but *I'm pretty confident our best quarters are still ahead of us*.

* * *

[Analyst:] [I]n the 8-K filing this morning, it looks like you substantially reduced the number of registered users for the Ubiquiti community board from 4 million to 609,000. Could you help me align or help me understand the alignment between the number of registered users to how I should start thinking about the revenue, especially given that you are starting to deliver \$1 billion in revenue?

[Pera:] Yes, *sounds like your shorts are getting nervous*. So I don't think that number is really that critical of an observation. Our IR people mixed up user sessions and total users. But regardless, *our user community is more engaged than ever. We have more stories, requests for more features, more – just excitement overall*. And if you compare it to, say, 2 or 3 years back, where our R&D wasn't executing at nearly as high a level, it's a huge improvement in my opinion in the quality of the community engagement.

53. As part of the November 9, 2017 press release and earnings call, and perhaps in lieu of a prepared statement on the call, defendants issued a presentation containing more than 40 slides. The presentation, an updated version of the presentation filed on August 10, 2017 with the SEC, summarized Ubiquiti's business plan, reaffirmed the financial forecasts as issued in the press release from the same day, and included the following statements: the Ubiquiti Community was the key to Ubiquiti's "[d]isruptive [b]usiness [m]odel" (slide 14), which gave the Company a "[c]ore [c]ompetitive [a]dvantage" (slide 15); in calendar 2016, Ubiquiti saw 11 million visits, 3 million registered user visits, and 173,000 newly registered users in the Ubiquiti Community (*id.*); the Ubiquiti Community was made up of "[h]ighly engaged and loyal evangelists" and was "[s]calable and self-sustaining," which had allowed and would continue to allow Ubiquiti to grow in perpetuity while "avoid[ing] the cost of a direct sales force" (slide 16); and further, Ubiquiti's "[d]istributors, resellers and connection with Ubiquiti Community drive sales," again

allowing Ubiquiti to “Avoid[the] Cost of a Direct Sales Force” (slide 20). As a result, according to slide 20, Ubiquiti’s “Operating Expenses [are only] 12% of sales vs. ~21-84% for sector.”

54. On November 9, 2017, Ubiquiti filed its quarterly report on Form 10-Q with the SEC for 1Q18. The Form 10-Q, which included the same results previously reported in the Company’s November 9, 2017 press release, was signed by and contained certifications pursuant to SOX of defendants Pera and Radigan.

1. I have reviewed this Quarterly Report on Form 10-Q of Ubiquiti Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for

external purposes in accordance with generally accepted accounting principles;

- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

55. Ubiquiti's common stock declined from a close of \$65.11 per share on November 8, 2017 to a close of \$62.63 per share on November 9, 2017, on significantly increased trading volume.

56. On November 10, 2017, JMP issued an analyst report evaluating the Company's 1Q18 financial results and 2Q18 financial guidance, as well as Pera's statements at Ubiquiti's Investor Day conference. JMP's report noted that Ubiquiti's stock price was trading lower, despite reporting revenue and EPS results above estimates for 1Q18, because the Company had

“guided F2Q 18 down,” not as a result of worsening business conditions, but rather, of volatility, as the Company decreased its inventory levels and lead times. JMP’s report did not mention the *Citron* Report or any other accusations of fraud against defendants, but did discuss the Company’s overstated Ubiquiti Community metrics:

- At its first ever analyst day, Ubiquiti broke out several metrics for its user community, including the number of registered user[s]. However, yesterday management noted that the original number posted represented the number of user sessions instead of the number of registered users, thus changing the reported number of registered users down to 600k from the previously reported 4 million.

57. On November 13, 2017, stock blogger Shareholders Unite published a report on *SeekingAlpha.com* entitled ““It Sounds Like Your Shorts Are Getting Nervous,”” a title that came from a statement made by Pera at the Investor Day conference. The report stated that the issues raised by Left in the *Citron* Report were “settled,” explaining: “Well, the short attack by Andy Left came and went, and seems to have produced no lasting damage. We think there is lasting recovery in the shares of Ubiquiti Networks (UBNT).”

58. On December 12, 2017, the Company held its Annual Shareholders Meeting, during which the Company’s stockholders were asked to approve Ubiquiti’s appointment of KPMG as the Company’s auditor. KPMG replaced PricewaterhouseCoopers LLP, which Ubiquiti had dismissed as its auditor on December 5, 2016.

59. On February 8, 2018, Ubiquiti issued a press release announcing its 2Q18 financial results and announcing its 3Q18 revenue guidance. For 2Q18, Ubiquiti reported net income of \$59.6 million, or \$0.76 diluted EPS, on revenues of \$250.8 million. The February 8, 2018 press release also reaffirmed FY18 guidance and issued guidance for 3Q18 as follows:

Second Quarter Financial . . . Highlights

- **Revenues increased 17.5% year-over-year and 2% sequentially,** primarily driven by demand for our UniFi AC and airMAX AC product families.
- **Enterprise Technology revenues increased 33.7% year-over-year and 4% sequentially,** reflecting the continued adoption of our UniFi AC technology platform.

* * *

- **Cash of over \$823 million,** up over 34% year-over-year and over 30% sequentially.

* * *

Business Outlook

Based on recent business trends, Ubiquiti currently believes the demand environment in its end markets supports the following forecast for the Company's third fiscal quarter ending March 31, 2018:

- Revenues of between \$245 million and \$260 million;
- Non-GAAP diluted EPS of \$0.92 - \$0.99.

60. The February 8, 2018 press release included an announcement that the Company's Board had approved a new \$150 million stock repurchase program.

61. The February 8, 2018 press release also explained that the Company's new consumer camera product, FrontRow, only just released the previous August, was not selling, such that the Company's inventory of the product already had to be written off. "Gross margin includes \$18.6 million of charges primarily related to provisions for obsolete inventory, vendor deposits and loss on purchase commitments associated primarily with the Company's FrontRow consumer-oriented product launched in August 2017."

62. On February 8, 2018, Ubiquiti also held a conference call for analysts, media representatives and investors to discuss its 2Q18 results. The call was hosted by Pera. During the call, Pera did not address the financial results and forecasts in the press release issued that same day and he issued no prepared remarks and took only three analyst questions.

63. In addition, on February 8, 2018, Ubiquiti filed its quarterly report on Form 10-Q with the SEC for 2Q18. The Form 10-Q, which was signed by Pera and Radigan, included the same results previously reported in the Company's February 8, 2018 press release and contained certifications pursuant to SOX signed by defendants Pera and Radigan.

64. On this news, including that Ubiquiti had missed in 2Q18 EPS guidance and already needed to write off its FrontRow inventory, the price of Ubiquiti common stock dropped significantly, falling \$11.04 per share, or more than 14%, from its close of \$78.50 per share on February 7, 2018, to a close of \$67.46 per share on February 8, 2018, on high trading volume of more than 1.9 million shares trading.

65. The statements referenced above in ¶¶48-54 and 58-63 were materially false and misleading when made, as they failed to disclose the following adverse facts that were known by defendants or recklessly disregarded by them:

(a) Ubiquiti had been inaccurately reporting its operating metrics and using improper accounting practices, as reported in the *Citron* Report and Unemon1 blog, including by overstating the number of actual registered users participating in the Ubiquiti Community as well as the levels and importance of their engagement with the Ubiquiti Community, overstating accounts receivable, and overstating the profits derived from its U.S. operations and thus the Company's U.S. operations profit margins;

- (b) much of Ubiquiti's distributor network was made up of overseas entities and individuals who were doing business in sanctioned countries and in jurisdictions identified by the Financial Action Task Force as "noncooperative jurisdictions" with regard to anti-money laundering regulations;
- (c) Ubiquiti's inventory of FrontRow camera products was obsolete and needed to be written off because there was no market demand for the product; and
- (d) as a result of the foregoing, there was no reasonable basis for Ubiquiti's FY18 financial guidance.

66. Analysts were generally sanguine about Ubiquiti's results. On February 8, 2018, BMO Capital Markets published a report, entitled "Slightly Lower Outlook; Remain Market Perform," noting that upside in the Company's results was largely offset by a "one-time write-off associated with the FrontRow product." JMP, in a report published on February 9, 2018, entitled "GM Falls on Inventory Write-Down & Reduced Outlook on Back-End Loaded Quarter," agreed with BMO's assessment, reporting: "Despite posting solid revenue numbers, the company significantly missed our GM, OM and EPS targets due to a one-time inventory write-down of obsolete FrontRow camera inventory." JMP added that it did not think any issues from 2Q18 would negatively affect Ubiquiti's FY18 revenue guidance, explaining: "We feel that strength in the enterprise segment will allow Ubiquiti to reach its revenue target." Deutsche Bank, meanwhile, in a February 9, 2018 report, maintained a Hold rating for the Company, primarily based on quarter-to-quarter volatility, to include: "Limited visibility on the product mix patterns (the company no longer provides quarterly guidance after FY18), causing volatility in margins."

67. On or about February 15, 2018, stock blogger Bert Hochfeld published a report on *SeekingAlpha.com* entitled “Ubiquiti: Dinged By Its Own Business Model.” As of February 15, 2018, Hochfeld considered Ubiquiti a good investment. According to Hochfeld’s *SeekingAlpha* report, the poor 2Q18 results were isolated: “Ubiquiti reported the results of its fiscal Q2 late last week. The headline EPS number was a miss, and the shares pulled back sharply. The non-GAAP EPS miss was entirely a function of an inventory write-off of a misbegotten consumer camera offering.” Further, Hochfeld stated the *Citron* Report was not credible:

The short case is based on disbelief in the sustainability of the company’s business model. In point of fact, the results the company achieved last quarter tend to substantiate its strategy and its ability to achieve market share gains.

* * *

I have written about Ubiquiti several times in the past and commented on its strategy. Again, this strategy has been challenged by many analysts and observers and was the subject of some so-called analysis by a well-known short-seller [*i.e.* the *Citron* Report] last autumn. . . .

. . . [T]hus far Ubiquiti’s operational performance would argue that the company is pursuing a valid strategy.

68. Then on February 20, 2018, the Company filed a Form 8-K disclosing that on February 13, 2018, the SEC had issued subpoenas to defendants directly related to the same issues raised by the *Citron* Report. The disclosure read in full:

On February 13, 2018, the Securities and Exchange Commission (the “SEC”) issued subpoenas to Ubiquiti Networks, Inc. (the “Company”) and certain of the Company’s officers requesting documents and information relating to a range of topics, including metrics relating to the Ubiquiti Community, accounting practices, financial information, auditors, international trade practices, and relationships with distributors and various other third parties. The Company is in the process of responding to the requests and intends to cooperate fully with the SEC.

69. On this news, the price of Ubiquiti common stock fell \$18.76 per share, or more than 25%, from its close of \$74.04 per share on Friday, February 16, 2018, to a close of \$55.28 per share on Tuesday, February 20, 2018,¹⁶ on unusually high trading volume of more than 5.4 million shares trading.

LOSS CAUSATION/ECONOMIC LOSS

70. During the Class Period, defendants made false and misleading statements about Ubiquiti's business metrics and financial prospects and engaged in a scheme to deceive the market. Defendants' conduct artificially inflated the price of Ubiquiti common stock and operated as a fraud or deceit on the Class. Later, when defendants' prior misrepresentations were disclosed to market participants, the price of Ubiquiti common stock dropped, as the prior artificial inflation came out of the stock's price. As a result of their purchases of Ubiquiti common stock during the Class Period, plaintiff and members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

APPLICABILITY OF PRESUMPTION OF RELIANCE

71. Plaintiff will rely upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

- (a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;
- (b) The omissions and misrepresentations were material;
- (c) The Company's stock traded in an efficient market;

¹⁶ Monday, February 19, 2018, was a national holiday, President's Day, during which U.S. equity markets were closed.

(d) The misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's stock; and

(e) Plaintiff and other members of the Class purchased Ubiquiti common stock between the time defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts.

72. At all relevant times, the market for Ubiquiti stock was efficient for the following reasons, among others:

(a) Ubiquiti stock met the requirements for listing and was listed and actively traded on the NASDAQ, an efficient market;

(b) As a regulated issuer, Ubiquiti filed periodic public reports with the SEC; and

(c) Ubiquiti regularly communicated with public investors via established market communication mechanisms, including through the regular dissemination of press releases on the major news wire services and through other wide-ranging public disclosures, such as communications with the financial press, securities analysts and other similar reporting services.

NO SAFE HARBOR

73. Many (if not all) of defendants' false and misleading statements during the Class Period were not forward-looking statements ("FLS") and/or were not identified as such by defendants, and thus did not fall within any "Safe Harbor."

74. Ubiquiti's verbal "Safe Harbor" warnings accompanying its oral FLS issued during the Class Period were ineffective to shield those statements from liability.

75. Defendants are also liable for any false or misleading FLS pleaded because, at the time each FLS was made, the speaker knew the FLS was false or misleading and the FLS was authorized and/or approved by an executive officer of Ubiquiti who knew that the FLS was false. Further, none of the historic or present tense statements made by defendants were assumptions underlying or relating to any plan, projection or statement of future economic performance, as they were not stated to be such assumptions underlying or relating to any projection or statement of future economic performance when made.

CLASS ACTION ALLEGATIONS

76. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons who purchased Ubiquiti common stock during the Class Period (the “Class”). Excluded from the Class are defendants and their immediate families, directors and officers of Ubiquiti and their immediate families, and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

77. The members of the Class are so numerous that joinder of all members is impracticable. The disposition of their claims in a class action will provide substantial benefits to the parties and the Court. During the Class Period, Ubiquiti had more than 80 million shares of common stock outstanding, owned by hundreds or thousands of persons.

78. There is a well-defined community of interest in the questions of law and fact involved in this case. Questions of law and fact common to the members of the Class that predominate over questions that may affect individual Class members include:

- (a) Whether the 1934 Act was violated by defendants;

- (b) Whether defendants omitted and/or misrepresented material facts;
- (c) Whether defendants' statements omitted material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading;
- (d) Whether defendants knew or recklessly disregarded that their statements were false and misleading;
- (e) Whether the price of Ubiquiti common stock was artificially inflated; and
- (f) The extent of damage sustained by Class members and the appropriate measure of damages.

79. Plaintiff's claims are typical of those of the Class because plaintiff and the Class sustained damages from defendants' wrongful conduct.

80. Plaintiff will adequately protect the interests of the Class and has retained counsel who are experienced in class action securities litigation. Plaintiff has no interests which conflict with those of the Class.

81. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

COUNT I

For Violation of §10(b) of the 1934 Act and Rule 10b-5 Against All Defendants

82. Plaintiff incorporates ¶¶1-81 by reference.

83. During the Class Period, defendants disseminated or approved the false statements specified above, which they knew or recklessly disregarded were misleading in that

they contained misrepresentations and failed to disclose material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

84. Defendants violated §10(b) of the 1934 Act and Rule 10b-5 in that they:

- (a) Employed devices, schemes and artifices to defraud;
- (b) Made untrue statements of material fact or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or
- (c) Engaged in acts, practices and a course of business that operated as a fraud or deceit upon plaintiff and others similarly situated in connection with their purchases of Ubiquiti common stock during the Class Period.

85. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of the market, they paid artificially inflated prices for Ubiquiti common stock. Plaintiff and the Class would not have purchased Ubiquiti common stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially and falsely inflated by defendants' misleading statements.

86. As a direct and proximate result of these defendants' wrongful conduct, plaintiff and the other members of the Class suffered damages in connection with their purchases of Ubiquiti common stock during the Class Period.

COUNT II

For Violation of §20(a) of the 1934 Act Against All Defendants

87. Plaintiff incorporates ¶¶1-86 by reference.

88. During the Class Period, defendants acted as controlling persons of Ubiquiti within the meaning of §20(a) of the 1934 Act. By virtue of their positions and their power to control public statements about Ubiquiti, the Individual Defendants had the power and ability to control the actions of Ubiquiti and its employees. Ubiquiti controlled the Individual Defendants and its other officers and employees. By reason of such conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

PRAYER FOR RELIEF

WHEREFORE, plaintiff prays for judgment as follows:

- A. Determining that this action is a proper class action, designating plaintiff as Lead Plaintiff and certifying plaintiff as class representative under Rule 23 of the Federal Rules of Civil Procedure and plaintiff's counsel as a Lead Counsel;
- B. Awarding plaintiff and the members of the Class damages and interest;
- C. Awarding plaintiff's reasonable costs, including attorneys' fees; and
- D. Awarding such equitable/injunctive or other relief as the Court may deem just and proper.

JURY DEMAND

Plaintiff demands a trial by jury.

DATED: March 13, 2018

ROBBINS GELLER RUDMAN
& DOWD LLP
SAMUEL H. RUDMAN
MARY K. BLASY

s/ Samuel H. Rudman
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Attorneys for Plaintiff

**CERTIFICATION OF NAMED PLAINTIFF
PURSUANT TO FEDERAL SECURITIES LAWS**

The undersigned declares, as to the claims asserted under the federal securities laws, that:

Plaintiff has reviewed the initial complaint filed in this action.

Plaintiff did not purchase and/or acquire the security that is the subject of this action at the direction of Plaintiff's counsel or in order to participate in any private action under the federal securities laws.

Plaintiff is willing to serve as a representative party on behalf of the class, including providing testimony at deposition and trial, if necessary. I understand that this is not a claim form, and that my ability to share in any recovery as a member of the class is not dependent upon execution of this Plaintiff Certification.

Plaintiff's transactions in the security that is the subject of this action during the Class Period are as follows - **List additional transactions on Schedule A, if necessary:**

Purchases:

	<u>Ticker of Company</u>	<u>Date(s) Purchased</u>	<u># Shares Purchased</u>	<u>Cost/Share</u>
Sales:	UBNT	2018-01-12	20	73.66
		2018-01-17	50	73.65
		2018-01-18	30	73.52

	<u>Ticker of Company</u>	<u>Date(s) Sold</u>	<u># Shares Sold</u>	<u>Proceeds/Share</u>
	UBNT			

During the three (3) years prior to the date of this certification, Plaintiff has not sought to serve or served as a class representative in an action filed under the federal securities laws except for the following (if any):

JK

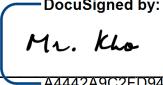
Plaintiff will not accept any payment for serving as a representative party on behalf of the class beyond Plaintiff's pro rata share of any recovery, except such reasonable costs and expenses (including lost wages) directly relating to the representation of the class as ordered or approved by the court.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 8 day of March, 2018 in Fort McMurray, Alberta, Canada.

City State

DocuSigned by:

(Signature) X 

Mr. Kho

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(Print Name) John Kho

First Last

SCHEDULE A

Purchases:

<u>Ticker of Company</u>	<u>Date(s) Purchased</u>	<u># Shares Purchased</u>	<u>Cost/Share</u>
UBNT	2018-02-22	20	56.61

Sales:

<u>Ticker of Company</u>	<u>Date(s) Sold</u>	<u># Shares Sold</u>	<u>Proceeds/Share</u>
UBNT			